

"Stranded Utility Asset Securities": Asset Backed Securities backed by cash flow from stranded utility assets and other costs authorized for recovery by state law in the jurisdiction of the related utility.

"Structured Finance Security": Any CDO Security, CMBS Security or other registered asset backed security, including any CDS Asset, the CDS Reference Obligation with respect to which is a Structured Finance Security; *provided*, that either such security (or, with respect to a CDS Asset or Covered Short CDS Asset, the CDS Reference Obligation) is treated as debt for U.S. federal income tax purposes or the issuer thereof is not a U.S. person and is treated as a corporation that is not a United States real property holding corporation as defined in Section 897(c)(2) of the Code for U.S. federal income tax purposes.

"Structured Settlement Security": A security that provides for the disbursement of money for an injured person's legal claim where all or part of the arrangement calls for future periodic payments.

"Student Loan Securities": Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the securities) on the cash flow from loans made to students (or their parents) to finance educational needs.

"Tax Lien Securities": Asset Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset Backed Securities) on the cash flow from a pool of tax obligations owed by businesses and individuals to state and municipal governmental taxing authorities, generally having the following characteristics: (1) the obligations have standardized payment terms and require minimum payments; (2) the tax obligations are obligations of numerous borrowers and accordingly represent a very diversified pool of obligor credit risk; and (3) the repayment stream on the obligation is primarily determined by a payment schedule entered into between the relevant tax authority and obligor, with early repayment on such obligation predominantly dependent upon interest rates and the income of the obligor following the commencement of amortization.

"Time Share Securities": Asset Backed Securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from residential mortgage loans (primarily secured on a first priority basis, subject to permitted liens, easements and other encumbrances) by residential real estate the proceeds of which were used to purchase fee simple interests in timeshare estates in units in a condominium, generally having the following characteristics: (1) the mortgage loans have standardized payment terms and require minimum monthly payments; (2) the mortgage loans are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; (3) repayment of such securities can vary substantially from their contractual payment schedules and depends entirely upon the rate at which the mortgage loans are repaid; and (4) the repayment of such mortgage loans is subject to a contractual payment schedule, with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium and with early repayment depending primarily on interest rates and the sale of the mortgaged real estate and related dwelling and generally no penalties for early repayment.

"Tobacco Settlement Securities": Asset Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset Backed Securities) on the cash flow from receivables representing the right of litigation claimants in legal actions related to tobacco products to receive future scheduled payments under settlement agreements that are funded by annuity contracts, which receivables may have varying maturities.

"Toggle Security": Any floating rate security that is a U.S. agency security and has a complex condition on its floating rate.

INDEX OF DEFINED TERMS

ABS CDO Security	180	Cashflow Swap—Substitution Event	95
ABS Small Business Loan Securities	180	Cashflow Swap—Suspension Event	145
Accounts	143	Catastrophe Bond	181
Accredited Investor	143	CBO Security	181
Accrued Interest Purchased With Principal	143	CDO Assets	145
ACI	100	CDO of CDO Security	181
Actual Interest Amount	86	CDO Securities	181
Additional Fixed Amounts	143	CDO Vehicles	100
Administration Agreement	53	CDS Asset	145
Administrative Expenses	143	CDS Asset Capacity Amount	146
Administrator	2	CDS Asset Collateral Account	90
Advisers Act	143	CDS Asset Counterparties	18
Affected Bank	122	CDS Asset Counterparty	146
Affiliate	143	CDS Asset Counterparty Forbearance	146
Aircraft Securities	180	CDS Asset Counterparty Termination Payment	147
Applicable Class A1 Swap Notional Amount	143	CDS Asset Interest Payment	147
Applicable Issuer	143	CDS Asset Interest Reimbursement	147
Applicable Recovery Rate	143	CDS Asset Issuer Account	91
Approved Ratings Threshold	143	CDS Asset Loss Payment	147
Articles	52	CDS Asset Payment	147
Asset Backed Securities	180	CDS Asset Principal Payment	147
Automobile Lease Securities	180	CDS Asset Principal Reimbursement	147
Automobile Loan Securities	180	CDS Asset Writedown Reimbursement	147
Available Funds	144	CDS Asset/SCA Issuer Termination Payment	147
Average Life	144	CDS Assets	18
Balance Sheet CDO Security	180	CDS Cash Settlement Payment	147
Bank	42	CDS Collateral Agreement	13
Bank Trust Preferred CDO Security	180	CDS Collateral Credit Enhancement Event	147
Base Rate	144	CDS Collateral Elective Withdrawal	148
Base Rate Reference Bank	144	CDS Collateral Elective Withdrawal Effective Date	148
Benefit Plan Investor	50, 126, 135	CDS Collateral Eligibility Criteria	148
Benefit Plan Investor Limitation	136	CDS Collateral Eligible Securities	148
BTB Counterparty	46	CDS Collateral Excess	148
Business Day	144	CDS Collateral Intraperiod Excess	148
Cap Corridor Floater	180	CDS Collateral Investment Downgrade	148
Capacity Subaccount	91	CDS Collateral Ratings Event	148
Cash	144	CDS Collateral Replacement Event	148
Cash Asct	144	CDS Collateral Required Amount	149
Cashflow Swap Agreement	93	CDS Collateral Securities Counterparty	1
Cashflow Swap Collateral Account	90	CDS Collateral Shortfall	149
Cashflow Swap Counterparty	2, 93	CDS Collateral Voting Notice	149
Cashflow Swap Counterparty Ratings Requirement	144	CDS Collateral Voting Notice Cut-Off Date	149
Cashflow Swap Fee Payment	144	CDS Collateral Voting Rights	149
Cashflow Swap Payment	145	CDS Collateral Voting Rights Event	149
Cashflow Swap Payments—Defaulted	145	CDS Collateral Withholding Event	149
Cashflow Swap Ratings Determining Party	145	CDS Fixed Amount	149
Cashflow Swap—Collateralization Event	94	CDS Interest Shortfall	149
Cashflow Swap—Deferred Shortfall Amount	144	CDS Issuer Up-Front Payment	150
Cashflow Swap—Interest Rate	144	CDS Payment Priority	150
Cashflow Swap—Interest Shortfall Amount	145	CDS Physical Settlement Payment	150
Cashflow Swap—Shortfall Amount	145	CDS Principal Shortfall	150
Cashflow Swap—Substitute Party	95	CDS Reference Obligation	150

CDS Reference Obligation Notional Amount	151
CDS Reference Obligor.....	151
Certificated Notes.....	23
CFC	131
CGML	1, 69
Citigroup.....	1
Class	151
Class A Notes	151
Class A1 Designee.....	66
Class A1 Eligible Investments.....	151
Class A1 Eligible Noteholder	151
Class A1 Mandatory Note Funding	151
Class A1 Mandatory Note Funding Reserve Account.....	92
Class A1 Note Amount.....	151
Class A1 Note Funding.....	66
Class A1 Note Funding Date	151
Class A1 Note Funding Request.....	151
Class A1 Note Funding Subaccount.....	91
Class A1 Notes	151
Class A1 Option Fee.....	67
Class A1 Option Fee Rate.....	11
Class A1 Requisite Ratings	151
Class A1 Swap.....	11
Class A1 Swap Counterparty	1
Class A1 Swap Notional Amount.....	11
Class A1 Swap Notional Amount—Average	151
Class A1 Swap Ratings Event	151
Class A1 Swap Termination Date.....	5
Class A2 Notes	152
Class A3 Notes	152
Class A4 Notes	152
Class B Notes	152
Class C Component	152
Class C Notes	152
Class Q Combination Note Notional Balance	152
Class Q Combination Notes.....	152
Class S Notes	152
Clearstream.....	152
CLO Securities	181
Closing Date	5
CMBS Conduit Securities	181
CMBS Credit Tenant Lease Securities	181
CMBS Large Loan Securities	181
CMBS Securities	182
CMBS Single Asset Securities	182
Code.....	152
Co-Issued Notes.....	152
Co-Issuer.....	1
Co-Issuers	1
Collateral	14
Collateral Administration Agreement	77
Collateral Administrator.....	1
Collateral Obligations	152
Collection Account	88
Commercial Mortgage Loans	31
Component	152
Conflicts Review Board.....	44
Contingent CDO Security.....	182
Corporate Trust Office.....	1
Coverage Tests	152
Covered Short Available Spread Amount	152
Covered Short CDS Asset	153
Covered Short CDS Asset Additional Criteria	153
Covered Short CDS Asset Collateral Account	153
Covered Short CDS Asset Counterparty	153
Covered Short CDS Asset Interest Payment.....	153
Covered Short CDS Asset Premium Amount	153
Covered Short CDS Asset Premium Test	153
Covered Short CDS Asset Total Premium Test Amount	153
Covered Short CDS Criteria	153
Covered Short Matching Long Position	154
Covered Short WAS Excess/Shortfall Amount	154
Credit Card Securities.....	182
Credit Derivatives Definitions	88
Credit Event	83
Credit Improved Security	154
Credit Protection Amounts	86
Credit Protection Payment	83
Credit Risk Security	154
CS	101
CSS.....	42, 100
Custodial Account	154
Custodian.....	1
Defaulted CDS Asset Termination Payments	154
Defaulted Interest	154
Defaulted Security	155
Defaulted Security Amount	156
Deferrable Interest Notes	156
Deliverable Obligation	156
Depository	156
Designated Maturity	57
determination date	82
Distressed Ratings Downgrade	84
DTC	156
E.U.....	51
Eligible Collateral Debt Securities	14
Eligible Guarantee	156
Eligible Guarantor	156
Eligible Investment	156
Eligible Replacement	158
Eligible SPV	158
Eligible Successor	110
Emerging Markets CDO Security	182
Emerging Markets Country	158
Employer Services Agreement	100
Enhanced Equipment Trust Certificate	182
Equipment Leasing Securities	182
Equity Security	158
ERISA	135
ERISA Plans	135

Euroclear	158
Event of Default	72
Exchange Act	158
Excluded Property	158
Exercise Amount	87
Exercise Percentage	87
Expected Interest Amount	86
Expense Reserve Account	89
Failure to Pay Interest	85
Failure to Pay Principal	83
FFIEC	138
Final Amortization Date	83
Firm Offer	176
Fitch	159
Fixed Rate Security	159
Floating Rate Security	159
Floating Rate Security—Deemed	159
Floating Rate Security—Deemed Asset Hedge	159
Floating Rate Security—Deemed Spread	159
Form-Approved ABS Asset Agreement	159
Form-Approved CDO Asset Agreement	159
Franchise Securities	182
FRB	159
FSMA	69
Future Flow Securities	182
German Investors	51, 133
Global Notes	23
Guaranteed Debt Security	183
Healthcare Securities	183
Hedge Agreements	159
Hedge Collateral	160
Hedge Collateral Account	89
Hedge Counterparty	160
Hedge Payment	160
Hedge Payments—Defaulted	160
Hedge Replacement Account	90
Hedge Replacement Proceeds	160
Hedge Termination Receipts	160
Hedge Termination Receipts Account	89
Holder	160
Home Equity Loan Securities	183
Implied Writedown	160
Implied Writedown Amount	160
Implied Writedown Excess Payment	
Reimbursement Amount	160
Implied Writedown Reimbursement Amount	160
Income Note Component	160
Income Note Paying Agency Agreement	55
Income Note Paying Agent	1
Income Note Register	160
Income Note Registrar	1, 60
Income Notes	160
Increased Fixed Amounts	161
Indenture	161
Indenture Register	161
Indenture Registrar	1, 60
Index Security	183
Indirect Participants	65
Initial CDS Agreement	88
Initial CDS Asset Counterparty	1
Initial Offerees	115
Initial Purchaser	1
Initial Rating	161
Insurance Trust Preferred CDO Security	183
Interest Collection Account	161
Interest Collections	161
Interest Coverage Amount	161
Interest Coverage Ratio	162
Interest Coverage Test	162
Interest Only Security	183
Interest Shortfall	86
Interest Shortfall Amount	85
Intermediation Fee	88
Inverse Floating Rate Security	184
Investment Company Act	162
Investment Criteria	82
Investment Tax Act	51, 133
Irish Listing Agent	2
Irish Note Paying Agent	2
Irish Stock Exchange	162
IRS	129
ISDA	82
Issuer	1
Junior Class	162
Key Counterparties	162
LaSalle	1
LIBOR	57
LIBOR Determination Date	57
LIG	42, 100
Listed Notes	162
London Business Day	57
Majority	162
Management Agreement	100
Management Fee	111
Management Fee Basis Amount	111
Manager	1, 42
Manager Default	109
Manager Sections	v
Mandatory Funding/Ratings Provisions	67
Mandatory Redemption Date—Initial	5
Manufactured Housing Securities	184
Margin Stock	162
Market Value	162
Market Value CDO Security	184
Master Agreement	82
Maturity	163
Maturity Date—Final	6
Maturity Date—Stated	6
Measurement Date	163
Minimum Reporting Requirements	51
Monthly Report	79
Moody's	163

Moody's Asset Correlation Factor	163
Moody's Asset Correlation Factor—Maximum	20
Moody's First Rating Trigger Event	163
Moody's First Trigger Ratings Threshold	163
Moody's Rating	163
Moody's Rating Factor	167
Moody's Rating Factor—Maximum	20
Moody's Recovery Rate	168
Moody's Recovery—Minimum	21
Moody's Second Trigger Ratings Event	168
Moody's Second Trigger Ratings Threshold	168
Moody's Trading Restriction Event	168
Moody's Weighted Average Rating Factor	169
Moody's Weighted Average Recovery Rate	169
Multi-Sector CDO Securities	184
Mutual Fund Securities	184
Natural Resource Security	184
Negative Amortization Security	184
Net Aggregate Adjusted Notional Amount	169
NIM Security	184
Non-Co-Issued Notes	169
Non-U.S. Holder	128
Non-U.S. Issuers	47
Non-U.S. Person	169
Note Calculation Agent	1
Note Paying Agents	2
Note Purchase Agreement	139
Noteholder	169
Notes	i, 169
Offering Circular	ii
Offshore Transaction	62
OID	129
OID Note	169
Oil and Gas Securities	184
Optional Redemption Date—Initial	5
Ordinary Shares	52
Other Indebtedness	155
Outstanding	169
Pari Passu Class	170
participants	61
Parties in Interest	135
Pay-As-You-Go Confirmation	170
Paying Agent	170
Payment Account	90
Payment Amount	170
Payment Date	5
Payment Report	79
Payment Requirement	85
Period	170
Period End Date	170
Periodic Interest	170
Periodic Interest Accrual Period	170
Periodic Interest Cumulative Shortfall Amount	170
Periodic Interest Rate	170
Periodic Interest Shortfall Amount	171
Person	171
PFIC	130
Physical Settlement Amount	87
PIK Bond	185
PIKing Bond	185
PIKing Bond Amount	171
Placement Agent	1
Placement Agreement	139
Plan Asset Regulation	135
Plans	135
Portfolio Limitations	21
Portfolio Quality Tests	20
Posted Collateral Subaccount	91
Principal Balance	171
Principal Balance Target	2
Principal Balance—Aggregate	171
Principal Balance—Portfolio	171
Principal Collection Account	171
Principal Collections	171
Principal Coverage Amount	171
Principal Coverage Discount Security	172
Principal Coverage Ratio	172
Principal Coverage Test	172
Principal Only Security	185
Priority of Payments	9
Priority of Payments—Interest Collections	6
Priority of Payments—Principal Collections	9
Project Finance CDO Security	185
Project Finance Securities	185
Prospectus Directive	51
PTCE	136
QEF	48
QIB	172
QP	172
Ramp-Up End Date	5
Ramp-Up Period	172
Rating Agency	172
Rating Agency Confirmation	173
Ratings Confirmation Failure	20, 173
Real Estate CDO Securities	185
Real Estate Investment Trust Preferred Security	186
Redemption	6
Redemption Amount	173
Redemption Date	173
Redemption Price	173
Reference Banks	57
Registered	173
Regulation S	173
Regulation S Global Notes	23
Regulation S Offeree	115
Relevant Entity	173
Relevant Implementation Date	139
Relevant Member State	139
Required Amount	173
Requisite Noteholder	173
Reserve Account	173
Reserve Investments	173

Residential A Mortgage Securities	186
Residential B/C Mortgage Securities.....	186
Restaurant and Food Services Securities	186
RMBS Securities	186
Rule 144A.....	173
Rule 144A Global Notes.....	23
Rule 144A Offeree.....	115
S&P	173
S&P Approved Ratings Threshold	174
S&P Break-Even Default Rate	174
S&P CDO Monitor.....	174
S&P CDO Monitor Test	21
S&P Current Portfolio	174
S&P First Rating Trigger Event	174
S&P Loss Rate Differential	174
S&P Minimum Average Recovery Rate.....	174
S&P Minimum Average Recovery Rate— Minimum	21
S&P Proposed Portfolio.....	174
S&P Rating	174
S&P Recovery Rate	175
S&P Required Ratings Downgrade Event	175
S&P Required Ratings Threshold	176
S&P Scenario Default Rate	176
Sale Proceeds	176
SEC	176
Second Additional Fixed Amounts.....	176
Second Rating Trigger Event.....	176
Secured Note Paying Agent	1
Secured Note Transfer Agent	176
Secured Notes	i, 176
Secured Obligations	176
Secured Parties	177
Securities Act.....	177
Semi-Annual Interest Reservc—Aggregate.....	177
Semi-Annual Securities	186
Semi-Annual Security Interest Reserve Amount ..	177
Senior CDO Security	186
Senior Class	177
Share Register	177
Share Registrar	2
Share Trustee	2
Short CDS Assets	177
Similar Law	135
Single-Tranche Synthetic CDO Security	186
Spread	177
Static Bespoke CDO Security	186
Step-Down Bond	186
Stranded Utility Asset Securities	187
Structured Finance Security	187
Structured Settlement Security	187
Student Loan Securities	187
Subordinated CDS Asset/SCA Termination Payment	177
Subordinated Covered Short CDS Termination Payment	177
Tax Event	177
Tax Ineligible Investment	178
Tax Lien Securities	187
Taxes	60
Temporary Regulation S Global Notes	23
Termination Events	88
Time Share Securities	187
Tobacco Settlement Securities	187
Toggle Security	187
Transaction Documents	178
Treasury	50
Trustee	1
U.S. 10% Shareholder	131
U.S. Collateral Debt Security	47
U.S. Holder	128
U.S. Person	178
U.S.\$, \$ or dollars	xiv
Underlying Instruments	178
USA PATRIOT Act	50
Warehousing Facility	41
Weighted Average Life	178
Weighted Average Life—Maximum	20
Weighted Average Spread	178
Weighted Average Spread—Minimum	20
Writedown	84
Written Down Principal Balance	178
Written Down Security	178

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EXHIBIT 86



Memo

To: Thomas Gandolfo
 Cc: Scott Gordon, Mike Gerity
 From: David Salz, Christine Lachnicht, Vandana Sharma
 Date:
 Re: Class V III – Surveillance Update

Class V Funding III was approved by the underwriting committee on March 16, 2007.

Issuer	Class V Funding III. Ltd.
Manager	Credit Suisse Alternative Capital
Underwriter	Citigroup
Trustee	ABN AMRO
Legal Final	February 22, 2052
Reinvestment Period	Limited over 3 years (up to 10% including redemptions)
Assets	100% single A mezzanine CDO of ABS (including 2% CDO ^{^2})
Size	\$1 billion
Ambac Attachment	50%
Ambac Exposure	\$500
AAA Attachment	18%
Controlling Class	The Class A1 Notes (protected by Ambac)
Funded/Unfunded	The class is unfunded. Funded notes will be created after losses, physical settlements and cash investments (limited to 20%) exceed 50%. Repayment of any funded note is senior in the interest and principal waterfall. CDS counterparty is responsible to fund these amounts.
CDS Counterparty	BNP
Ambac CDS obligations	Ultimate payment of principal on any funded notes and timely payment of interest and commitment fees

Executive Summary on Rating Actions:

- All 58 of the assets in this CDO are single A rated tranches of mezzanine CDO of ABS. The assets underlying these mezzanine CDO of ABS are predominantly Baa2/Baa3 rated midprime/subprime RMBS.
- At the current time, 20% of the portfolio is on Moody's negative watch and 12% is on S&P's negative watch. The combined list represents 26% of the portfolio. Although there have been no downgrades, the expectation is that downgrades will follow in the next two months. The portfolio suffered higher levels of rating actions as compared to a similar transaction (i.e., 888). However, if all tranches on watch (i.e., 26%) with zero recovery, Ambac would still have nearly 50% of its initial subordination (i.e., 24%).
- The transaction pays principal sequentially from origination and all OC and IC tests are passing at the current time. We expect that when the rating actions are finalized that junior OC tests may fail (next 6 months). In the short term, this is not too meaningful to us as expected portfolio principal amortization in the near term is minimal. As the next senior OC test fails, Ambac's exposure will begin declining through the diversion of excess cashflows through the interest waterfall.
- Pool is composed of both trigger and triggerless CDO of ABS. For trigger deals, the PIK (pay-in-kind) risk is that downgrades and incorporated asset haircuts in the overcollateralization tests of the underlying single A CDOs could lead to a shutoff of interest payments to the single A CDO. Triggerless deals do not have PIK risk. Initial assessment is that there is one transaction that may PIK in the near future (out of 58 investments). We do expect a few of the triggerless deals to be downgraded to the single B to double BB category based upon the percentage of underlying collateral downgraded.
- Underwriting stresses on the portfolio looked at a portfolio wide 3 notch downgrade (Aaa) and 6 notch downgrade (Aa2). Underwriting stresses including evaluating single A CDO losses based upon cumulative mortgage losses of 15-17% which exceeds the current view on the 2006 vintage. This result is explained in part by the diversification of asset pools in each underlying CDO of ABS (rating, vintage, asset type).
- What has changed since underwriting is an appreciation that as S&P drops more BBB/BB RMBS to CCC, synthetic transactions (most of the 2006 vintage) will experience overcollateralization test failures on trigger deals leading to a high probability of tranches PIKing; further, the right of the counterparty to deliver the security to the CDO has been accelerated as the CCC level allows physical settlement. Careful monitoring of trustee reporting is critical given the magnitude of changes in the underlyings.
- Based upon marks as of June 30, 2007 and provided to us by the manager, the portfolio was marked at \$635 million (63.5%) (127% coverage to Ambac's class).
- Ambac's remedies beyond subordination are the following:
 - Overcollateralization and Interest Coverage diversion triggers.
 - Ability to replace the manager at effectively 177% of the initial exposure (currently 200.4%)
 - Ability to call an Event of Default at 169% of the initial exposure (currently 200.4%)
 - Ability to direct liquidation at effectively 125% of the initial exposure (currently 200.4%).
- In summary, this transaction will have additional marks. While we do not see a future claim, our level of confidence is less than with our other transactions and should be carefully monitored.

CLASS V FUNDING III, LTD. TRANSACTION SUMMARY

Overview of the transaction	CDO squared of Single A CDO of Mezzanine ABS. The Moodys WARF at origination was 120 (A2). Current WARF estimated to 147 (A2/A3). Max WARF is 125. (Aa2/Aa3). There is one position in a CDO squared (2%) and one position in an RMBS bespoke (2%).																																																																																																																																																							
Attachment points	The natural AAA attachment point at close was 18%. Ambac's 50% attachment is approximately 2.8x this level.																																																																																																																																																							
Collateral	Aggregate Collateral: \$1.00 billion collateral pool comprising of 58 issuers. Up to 100% can be synthetic positions and up to 20% can be cash positions. In the most recent trustee report, 13.2% is in cash securities.																																																																																																																																																							
Amount of collateral in the deal impacted by the recent Moody's and S&P rating actions (RMBS and CDO)	As this is a pool of CDOs and to date no CDOs have been actually downgraded, we have highlighted tranches that S&P or Moody's has placed on negative watch.																																																																																																																																																							
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Haircuts	Haircuts in OC tests: BB assets by 10%; single B by 30%; CCC by 50%. Assets that PIK are treated are counted at the lower of market or rating agency recovery rate (approximately 65% haircut).																																																																																																																																																							

Acceleration and liquidation rights	Ambac, as the Controlling Class, can direct the liquidation of the collateral upon (i) any failure to pay AA interest, (ii) any failure to pay principal, (iii) with overcollateralization haircuts, the overcollateralization percentage to the AAAs of 76.75% (which is effectively 125% to Ambac's class at origination).
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ATTACHMENT POINT ANALYSIS**Transaction Capital Structure:****Transaction Capital Structure:**

Tranche (Moody's/S&P)	Rating	Initial Principal Amount*	Percent of Capital Structure	Coupon	WA Life (years)	Expected Maturity*	Legal Final (years)
Class S	Aaa/AAA	\$39,200,000	3.8%	3 mo L +34 bps			8
Class A-1 (unfunded)	Aaa/AAA	\$500,000,000	48.0%	3 mo L +45 bps**	5.5	8 years	45
Class A-2	Aaa/AAA	\$200,000,000	19.2%	3 mo L +55 bps	7	8 years	45
Class A-3	Aaa/AAA	\$120,000,000	11.5%	3 mo L +70 bps	7	8 years	45
Class A-4	Aa2/AA	\$75,000,000	7.2%	3 mo L +120 bps	7	8 years	45
Class B	A2/A	\$50,000,000	4.8%	3 mo L +300 bps	7	8 years	45
Class C	Baa2/BBB	\$35,000,000	3.4%	3 mo L +525 bps	6.3	8 years	45
Preference Shares		\$22,000,000	2.1%	N/A	NA	8 years	45
TOTAL		\$1,041,200,000	100.0%				

*8 year auction call

**Unfunded cost is 28 bps and funded cost is L + 45 bps.

Ambac has sold protection on the entire unfunded Class A-1 Notes which is the most senior \$500 million in the transaction and benefits from 50% subordination including a junior Aaa/AAA tranches totalling \$320 million representing the bottom 39% of a natural AAA tranche. At Close, the 50% subordination represented 2.7x the required AAA subordination of 18.2%.

At the current time, it is not expected that an auction call will be successful unless subordinate classes would agree to reduced proceeds.

CDO Manager Concentration (Three largest collateral managers by % of par)

Collateral Manager	%
Harding	9.25%
ACA	7.00%
Tricadia	5.00%

DOWNGRADE /WATCH ANALYSIS

Cusip	Deal Name	Current Face	Moody's Action	Previous Rating	Current Rating	S&P Action	Previous Rating	Current Rating	Percent of Fund
00389PAD7	ACABS 2006-2A A3L	\$ 19,936,986	watch	A2	A2	watch	A	A	1.99%
00082WAD2	ACABS 2006-1A A3L	\$ 19,928,254			A2	watch	A	A	1.99%
15719MAC5	CETUS 2006-2A B	\$ 20,000,000	watch	A2	A2			A	2.00%
15719RAF7	CETUS 2006-3A C1	\$ 20,000,000	watch	A2	A2			A	2.00%
903399AA1	JACKS 2006-4A D	\$ 20,000,000	watch	A1	A1			A	2.00%
553129AD9	MKP 6A C	\$ 20,000,000	watch	A2	A2			A	2.00%
50547QAC1	LCERT 2006-1A B	\$ 20,000,000	watch	A2	A2			A	2.00%
87337WAD2	TABS 2006-5A A3	\$ 20,000,000	watch	A2	A2			A	2.00%
8733YAD8	TABS 2006-6A A3	\$ 20,000,000			A2	watch	A	A	2.00%
25454XAD7	DGCDO 2006-2A C	\$ 20,000,000	watch	A2	A2	watch	A	A	2.00%
55313HAC2	VELA 2006-1A C	\$ 20,000,000	watch	A2	A2	watch	A	A	2.00%
45072HAJ9	IXCBO 2006-2A C	\$ 10,000,000	watch	A2	A2			A	1.00%

543175AJ2	LSTRT 2006-1A D	\$ 10,000,000	watch	A2	A2	A	1.00%
	ORION 2006-2	\$ 20,000,000				Watch A A	2.00%

\$ 259,865,240 25.99%

Asset Analysis:

Par Amount	1,001,472,516
Cash (including interest)	<u>345,014</u>
	1,001,817,530
% of Mezz CDO of ABS (or CDO^2)	100%
% of HG CDO of ABS	0%
% of Par Amount on Mdy's Watch	20%
% of Par Amount with an affiliate tranche on Moody's watch	38%
% of Par Amount on S&P Watch	12%
% of Par Amount on S&P or Moody's Watch	26%
% of Par Amount on S&P or an affiliate tranche on Moody's watch	44%
Subordination	50%

Affiliate tranches means any tranche in the CDO has been put on watch.

Based upon the above rating actions, the following chart highlights the watch list for CDO-squared bonds in the portfolio with additional information on the underlyings.

Mezzanine CDO of ABS to Watch (all CDO^2's and mezzanine CDO of ABS)

Cusip	Highest Tranche on Mdy's Watch	S&P			FROM UBS				BB rated Prior to DG's	Single A Attachment	Double AA Attachment		
		Watch	Portfolios	Moody's	% DG by Moody's	% NW by Moody's	Total	Trigger					
TABS 2006-5A	87337WAC4	A2	No	AA Bespoke, Class V III	28.6	6.4	35	Yes	yes	Tricadia	9.76	9.8%	15.4%
ACABS 2006-2A	00389PAC9	A2	Yes	AA Bespoke, Class V III	21.7	11.9	33.6	yes	Static	ACA	28.57	11.6%	15.5%
KEFT 2006-1	487520AJ78T	A2	Yes	888	16.4	10.2	26.6	Yes	Yes	Terwin	2.27	8.4%	12.4%
MKP CBO VI	553129AC1	Aa2	Yes	AA Bespoke, Class V III	11.5	14.9	26.4	Yes	yes	MKP	9.46	8.5%	9.9%
DGCDO 2006-2A	254XAC9	A2	Yes	AA Bespoke, Class V III	17	7.2	24.2	yes	yes	SSgA	6.53	10.4%	14.2%
Jackson 2006-4	903399AA1?	A1	No	Class V III			24.0	No	static			8%	
CETUS 2006-3A	15719RAE0	A2	Yes	AA Bespoke, Class V III	19	5	24	No	yes	GSC	0.01	12.7%	19.7%
CETUS 2006-2A	15719MAB7	Aa2	Yes	AA Bespoke, Class V III	19.8	2.5	22.3	yes	yes	GSC	0.0	9.4%	14.9% Test is A1 only
VELA 2006-1A	55313HAC28T	A2	Yes	AA Bespoke, Class V III, 888			20.2	yes	yes	MKP	0	15.5%	19.4%
OCTAN 2006-3	6757M1AF9	Baa2	Yes	Adams	14%	4%	18.0	no	yes	Harding	0	9.5%	15.0%
IVYL 2006-1	46601QAJ78T	A2	Yes	888	13.3	4.4	17.7	No	yes	Princeton	7.80	9.00%	12.7%
LCERT 2006-1	50547QAB3	A2	No	AA Bespoke, Class V III, Adams	9.4	4	13.4	yes	Static	Magnatar	0.0	9.5%	15.0% Test is A1 only
LSTRT 2006-1	543175AJ28C	A2	Yes	AA Bespoke, Class V III, 888	10.2	2.8	13	No	yes	JPMIM	3.68	8.5%	13.5%
KNOLL 2006-2	49916RAD2	A2	Yes	AA Bespoke, Class V III	7.5	2.3	9.8	yes	no	Deerfield	8.75	8.5%	13.2%
IXCBO 2006-2	45072HAJ98T	A2	Yes	888	3.4	4.3	7.7	yes	yes	IXIS	4.60	8.9%	13.1%
BFCSL 2006-1	08861KAC08T	Aa2	Yes	888	3	1	4.0	Yes	yes	Braddock	9.52	8.5%	12.5%

To be added based upon S&P actions: ACABS 2006-1A (AA Bespoke, Class V III) and TABS 2006-6A (AA Bespoke, Class V III)

COVERAGE TEST ANALYSIS

This deal has both principal coverage (OC) tests and interest coverage (IC) tests. There is limited reinvestment during the first three years up to 10% of the pool. The payment sequence is sequential

	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>
Principal Coverage Ratio (Actual)	111.94%	106.02%	102.23%
Principal Coverage Test	103.70%	100.80%	100.00%
Difference	8.24%	5.22%	2.23%
	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>
Interest Coverage Ratio (Actual)	168.23%	145.12%	129.34%
Interest Coverage Test	111.00%	108.00%	105.00%
Difference	57.23%	37.12%	24.34%

- This pool will need to be closely monitored in the next two years as rating actions will affect the behavior of the underlyings CDOs and the triggers in this transaction.
- The pool is composed of tranches from CDOs which have OC and IC triggers and have tranches from CDOs which do not have OC and IC triggers. In addition, some of the synthetic exposures have implied writedown as a credit event (as explained below).
- The immediate and long term concern is the potential for PIK risk and implied writedowns.
 - PIK risk. For transactions that have OC and IC triggers, rating agency migration haircuts can cause junior tranches to PIK (pay in kind) as interest is diverted to other classes. Implication is that interest collections will be reduced. For OC purposes, after 2 periods of PIKing, the asset is treated as a defaulted asset for purposes of haircuts.
 - Implied writedown risk. For CDOs with triggers and those without, rating agency migration haircuts could lead to implied writedown prior to defaults (i.e., a comparison of par coverage with haircuts relative to the sum of synthetically referenced class and its senior securities. The economic effect is that this is a underlying single CDO credit event which permits the delivery of the asset. If the asset is unavailable, the CDS counterparty could claim for the writedown amount; however, as long as the full interest coupon on the underlying CDO of ABS has been paid, the CDO is entitled to interest (LIBOR + premium) on the amount of writedown paid.
- Based upon review and conversations with the portfolio manager, it is likely that one bond (MKP) will PIK in the near future. We will receive from the manager in the coming days their analysis of the OC coverages for the underlying single A CDOs.
- The expectation is that Class V will likely trip its most junior OC test in the next 6 months through a combination of PIKing bonds (1-2) and single B downgrades (1-2).